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RUEANHA/FAA NATIONAL HQ WASHDC
RUCNCOM/EC CARICOM COLLECTIVE
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SUBJECT: BWIA to become Caribbean Airways: A Real Transformation?

Ref: A) 05 POS 1829; B) 05 STATE 63882; C) 06 POS 716

¶1. Summary: After years of financial struggles and failed attempts at restructuring, the national airline carrier of Trinidad and Tobago (T&T), the British West Indies Airways (BWIA), will close its doors December 31, 2006, and reopen the next day as Caribbean Airlines. Indications that this latest restructuring effort may be more substantive than cosmetic include the separation of most of BWIA's employees and a drastic reduction in staff for the new carrier. While significant hurdles remain for the new carrier, including T&T government officials' demands for free tickets and upgrades which cut into profitability, a successful transition to a more competitive regional carrier also could revive interest in regional or bilateral Open Skies negotiations. End Summary.

The Prolonged Demise of BWIA

¶2. BWIA, the 66-year old national airline of T&T, has not been solvent for at least the last five years. 2001 presented BWIA with both the downgrading of T&T's aviation safety rating by the FAA to Category Two status in July and a global slowdown in civil aviation ensuing from the September 11 terrorist attacks. 2003 was another problem-filled year for BWIA, as the International Lease Finance Corporation impounded planes when BWIA was unable to pay its leases.

Despite BWIA's 1995 privatization and 2000 IPO, the carrier continued to receive injections of Government of Trinidad and Tobago (GOTT) funds over the years. Finally, in August 2004, BWIA undertook a Rights Issue to raise additional capital, with the GOTT regaining a 97 percent majority stake in the carrier. GOTT then said that it would no longer continue to bail out the airline and mandated that a long-attempted "restructuring" take place if the airline was to continue its existence.

¶3. BWIA had made attempts to reduce staff and restructure in the past five years but was never able to reach an agreement with the four unions representing BWIA staff. After the GOTT regained a controlling stake in BWIA, it appointed a seven-member restructuring task force to examine the viability of BWIA. This task force recommended restructuring only if certain criteria were met, including a complete overhaul of the management structure, maintenance of Category One status and recapitalization. The GOTT agreed to a US\$250 million capital injection this year if BWIA could be restructured or a new entity created. A further US\$100 million equity injection was approved in June 2006.

¶4. After over a year of discussions and continuing losses, BWIA hired UK national Peter Davies as CEO on March 17, 2006 to effect BWIA's restructuring. Credited with having transformed bankrupt Belgian airline Sabena into a profitable carrier from 2002 to 2005, Davies was immediately tasked with determining if BWIA could be restructured by June 30, 2006. Davies missed this deadline because, like his predecessors, he was unable to reach a new collective bargaining agreement with the unions. Consequently, on September 8,

2006, BWIA officially announced that it would close on December 31 and reopen on January 1, 2007 as the new Caribbean Airlines. The unions and BWIA each blame the other side for the closure - the unions complained that Davies had not shared his business plan with them, while BWIA accused the unions of undermining the airline by going on strike during the collective bargaining negotiations when the airline was already losing US\$1 million weekly.

Changes at Caribbean Airlines

¶15. The first and most significant change resulting from the closure of BWIA and creation of Caribbean Airlines was the "separation" of BWIA's employees. Employee costs average around 35 percent of the BWIA's expenses, representing BWIA's most significant expenditure except when fuel costs are high. The closure decision served to eliminate the unions' hold over the new carrier, as management has announced that there will be no union representation at the new carrier. After the September 8 announcement of the plan to close BWIA, unions were given until September 26 to negotiate voluntary separation packages (VSEP) for their employees.

¶16. Negotiations with T&T-based employees ended successfully, with 93 percent of employees signing VSEP documents in late September at a total cost to BWIA of around US\$50 million; negotiations continue with the 40 US-based employees. Meanwhile, Caribbean Airlines started recruitment on October 16, 2006. Davies revealed in a newspaper interview that his plan was to hire around 550 employees, a significant reduction from BWIA's 1,800 staff. Newspapers report that outsourcing to airline handling companies for such operations as check-in, airline ticketing, and loading and ramp services will allow for this staff reduction.

¶17. Caribbean Airways is also reassessing its routes and fleet. Several contacts said the restructuring plan involves a new focus on Caribbean routes and a decrease in the frequency of flights to non-Caribbean destinations. Colville Carrington, Director of Maintenance and Engineering at BWIA, told Econoffs during a tour of BWIA maintenance facilities at Piarco Airport that the Port of Spain-London route would be discontinued and the two Airbus A340-300s that fly that route would be "returned". BWIA has already discontinued service between Port of Spain and Washington DC as of October 10, 2006. Marsha Suraj, country manager for Continental Airlines, and Ernesto Quidgley II, the country manager for American Airlines, also reported hearing that Caribbean Airlines would be reducing its fleet of Boeing 737s from seven to five.

¶18. Another significant hurdle for the new carrier will be whether or not managers can refuse free tickets or complimentary upgrades to government officials and their family and friends. According to airline contacts and newspaper reports, T&T government officials are in the habit of demanding free tickets for upgrades for themselves or their family and friends for personal travel.

¶19. COMMENT: This most recent attempt to transform T&T's national carrier appears to be a more sincere effort at streamlining and rationalizing the airline than any previous attempt. BWIA has cleared one hurdle, the unions, which received some blame for BWIA's past inflexibility and inability to restructure. However, Caribbean Airlines will still face questions about whether any regional carrier can be profitable, given travel trends based on tourism patterns which leave flights to many destinations largely empty for six months out of the year.

¶10. COMMENT CONTINUED: The implications of BWIA's demise and Caribbean Airlines' launch for future bilateral or regional Open Skies negotiations with the U.S. remain to be seen. U.S.-CARICOM discussion of Open Skies had stalled in August 2004, and little progress was made on bilateral talks in 2005 (see ref A). Ramesh Lutchmedial, Director General of Civil Aviation, told Econoffs in a recent meeting that he personally remains interested in a bilateral Open Skies agreement between the U.S. and T&T, as it would allow Caribbean Airlines access to any U.S. airport (see also ref B). He reiterated that previous management at BWIA had opposed Open Skies in past negotiations (see ref C). If Caribbean Airways is able to see profits by 2009, as Davies has avowed, the GOTT may be willing to reconsider air transport liberalization with the U.S. End Comment.

